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# REPORT OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING ON ITS SIXTEENTH SESSION

Held at the Palais des Nations, Geneva,
from 17 to 19 February 1999

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## Introduction

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) held its sixteenth session at the Palais des Nations, Geneva, from 17 to 19 February 1999. In the course of its session, it held two plenary meetings and seven informal meetings.

## Chapter I

## AGREED CONCLUSIONS AND RECOMMENDATIONS

2. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting addresses the following conclusions and recommendations to Governments and related organizations.

### I. Requirements for the qualifications of professional accountants

3. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR),

Recalling that ISAR was created by resolution 1982/67 of the Economic and Social Council and is the only intergovernmental working group in the United Nations system devoted to the international harmonization of national accounting and reporting practices at the corporate level,

Taking note that the Economic and Social Council instructed ISAR to review developments in the field of international accounting and reporting,

Taking note that the Economic and Social Council instructed ISAR to set priorities for its work by considering the needs of home and host countries, particularly those of developing countries,

Taking note that in fulfilling this mission ISAR is to consult the international bodies which it deems appropriate on matters pertaining to the development of international standards of accounting and reporting, and elicit the views of interested parties,

Taking note that the Decision on Professional Services mandates the World Trade Organization (WTO) to develop multilateral disciplines relating to market access, giving priority to accountancy, to ensure that domestic regulatory requirements are based on objective and transparent criteria such as competence and ability to supply the service, thereby facilitating the effective liberalization of accounting services,

Further taking note with appreciation of the cooperation taking place between UNCTAD and WTO, the World Bank and the Organisation for Economic Co-operation and Development (OECD), and of the consultations with the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC), in the field of harmonization of accounting and reporting standards,

Taking note also with appreciation of the documentation prepared by the UNCTAD secretariat for the sixteenth session of ISAR,

Reaffirms the fundamental role of reliable, transparent and comparable financial information for trade, investment and financial stability, and recognizes the importance of harmonization of accounting and reporting practices;

Recognizes that improved accounting disclosure and auditing depends on the existence of qualified professional accountants;

Reaffirms the fundamental necessity to harmonize differences in national requirements for professional qualifications.

4. ISAR therefore recommends the following guideline to those national authorities, both public and private, who are responsible for ensuring an adequate level of competence of professional accountants.

## II. Guideline for national systems for the qualification of professional accountants

### A. General

5. ISAR recognizes that a strong accountancy profession is crucial to the well-being of a national economy and to its social and political development. It further recognizes that such a profession can only evolve if those accountants who seek a professional designation or title meet high qualification requirements.

6. A professional accountant is a person who is qualified to be, or who is, a member of a recognized professional body of accountants or of auditors, or who is recognized as such by a regulatory body.

7. The requirements for those wishing to become professional accountants include:

(a) A thorough grounding in general and theoretical knowledge usually gained through a prescribed course of study; and

(b) Completion of a suitable period of practical experience; and

(c) Demonstration of professional competence through successful completion of an examination.

8. ISAR also acknowledges that demonstration of professional competence is an ongoing requirement.

9. ISAR recommends that candidates for a professional designation should normally have completed a course of appropriate studies from an accredited higher education institution or the equivalent prior to becoming qualified. Whether there should be one or two separate programmes in a country on general education and on professional education must be a national variant, depending on government laws and regulations, educational conditions in the country, professional standards and other matters.

### B. Recommendation on general education

10. ISAR recommends for use the guidance of the International Federation of Accountants (IFAC) on general education that is contained in its International

Education Guideline Number 9 (IEG 9), "Prequalification education, assessment of professional competence and experience requirements of professional accountants". This guidance recommends that candidates for a professional qualification should have completed broad-based studies that will provide them with:

(a) An understanding of the flow of ideas and events in history, the different cultures in today's world, and an international perspective;

(b) Basic knowledge of human behaviour;

(c) A sense of the breadth of ideas, issues and contrasting economic, political and social forces in the world;

(d) Experience in conducting inquiries and evaluation of quantitative data;

(e) The ability to conduct inquiries, carry out abstract logical thinking, and understand critical thinking;

(f) An appreciation of art, literature and science;

(g) An awareness of personal and social values and of the process of inquiry and judgement;

(h) Experience in making value judgements;

(i) Written and oral communication skills to present and debate and give points of view formally and informally.

## C. Recommendations on professional education other than education for professional knowledge

11. ISAR recommends for use the guidance of IFAC on professional education that is contained in its IEG 9, as supplemented by its IEG 11, "Information technology in the accounting curriculum" and related International Information Technology Guideline 1, "Managing security of information". This guideline categorizes professional education into the following groups of subject matters:

(a) Organizational and business knowledge;

(b) Information technology knowledge; and

(c) Accounting and accounting-related knowledge.

12. According to IFAC's IEG 9, the recommended *organizational and business knowledge* core subjects are:

(a) Economics

(b) Quantitative methods and statistics for business;

(c) Organizational behaviour;

(d) Operations management;

(e) Marketing; and

(f) International business.

13. Concerning *information technology*, the guidance states that all professional accountants must have at least a general level of knowledge of each of the following content areas:

(a) Information technology concepts for business systems;

(b) Internal control in computer-based business systems;

(c) Development standards and practices for business systems;

(d) Management of the adoption, implementation and use of information technology;

(e) Evaluation of computer-based business systems.

14. After the basic techniques of electronic data processing techniques (how to use microcomputers and basic software, such as operating programmes and word processing and spreadsheet programmes) have been mastered, the study of the above information technology concepts should be integrated with the study of other professional subjects.

15. International Information Technology Guideline 1 describes the principles of information security and approaches to the implementation of security techniques.

16. IFAC's recommended *accounting and accounting-related knowledge* core subjects are:

(a) Financial accounting and reporting;

(b) Management accounting;

(c) Taxation;

(d) Business and commercial law;

(e) External and internal auditing;

(f) Finance and financial management;

(g) Professional ethics.

17. ISAR recommends that professional education should also include environmental accounting and reporting.

## D. Recommendation on the model curriculum for education for professional knowledge

18. IFAC's IEG 9 does not include a detailed curriculum for education for professional knowledge - the scope of the IFAC guideline is to provide a general framework for the subject matters for the education of persons who aspire to become professional accountants. The guideline is not intended to be prescriptive. ISAR has concluded at its previous sessions that many developing countries and countries with economies in transition need more than a general guideline for designing or evaluating the accounting curricula of their educational institutions. ISAR considers that there is a need for a model curriculum to serve as a guideline if such countries are ever going to be able to demonstrate that their educational programmes are comparable to the programmes in other countries. Many Member States of the United Nations cannot afford to have a mechanism such as a special education committee to link the needs of the global market with the education of accountants in their country. Nevertheless, developing countries face barriers if they do not comply with world standards. Accordingly, ISAR requested UNCTAD to develop such a model curriculum for consideration at its sixteenth session.

19. ISAR recommends for use the model curriculum contained in document TD/B/COM.2/ISAR/6 as an additional reference point on which to base course work for theoretical knowledge. Since certain of the subject matters included in the model curriculum as well as the other guidance will become dated in the long term and other subjects and information may need to be added to enable professional accountants to function in a rapidly changing global environment, the model curriculum should be modified as appropriate.

20. It should also be recognized that the detailed model curriculum is merely a starting point for a country desiring to harmonize its system of formation to meet global requirements. Appropriate persons in each country must take the curriculum and develop a syllabus and indicate the time to be spent on each subject area. A weighting system for the subject areas cannot be done on a global basis.

## E. Recommendations for the assessment of professional competence (examinations)

21. ISAR recommends for use the guidance of IFAC on the assessment of professional competence that is contained in its IEG 9, as supplemented by its "Advisory on examinations administration" (Education Committee Study 1). This guidance states that:

> "An appropriate process of assessment of professional competence must exist or be established. A required component of the assessment process for individuals seeking to become qualified is a final examination, administered by or with substantive input from, the professional body or regulatory authority. The examination must be comprehensive, require a significant portion of responses to be in writing, and be administered near the end of the educational and, where appropriate, experience requirement."

**F. Recommendations on practical experience**

22. ISAR recommends for use the guidance of IFAC on practical experience that is contained in its IEG 9, as supplemented by its discussion paper entitled "Practical experience". This guidance states that:

> "An appropriate period of relevant experience in performing the work of professional accountants must be a component of a prequalification program. The period of experience may vary due to differences in the environment in which professional accountants offer their services. However, this period should be long enough to permit prospective accountants to demonstrate that they have gained the knowledge, skills, and professional values sufficient for performing with professional competence and for continuing to grow throughout their careers. *This objective cannot normally be met in a period of less than three years.* [emphasis added]
>
> ... Prospective professional accountants should gain their relevant experience in accounting positions deemed appropriate by the body to which they are applying.
>
> Experience leading to qualification should be conducted under the direction and supervision of experienced members of the profession as identified by the professional body or regulatory agency."

**G. Recommendation for a programme of continuing professional education**

23. ISAR recommends for use the guidance of IFAC on practical experience that is contained in its IEG 2, "Continuing professional education". According to the guideline, the objectives of a programme for continuing professional education are as follows:

> "(a) Maintain and improve the technical knowledge and professional skills possessed by [professional persons];
>
> (b) Assist members of the profession to apply techniques, to understand economic developments and to evaluate their impact on their clients or employees and on their own work, and to meet changing responsibilities and expectations; and
>
> (c) Provide reasonable assurance to society at large that members of the profession have the technical knowledge and professional skills required to perform the services they undertake to provide."

24. IFAC's guidance goes on to recommend that professional accountants receive at least 30 hours each year of continuing professional education as defined above. It may not be practical for every professional person to obtain this minimum amount of such education each and every year and therefore it is suggested that there should be an alternative minimum of an aggregate of 90 hours of structured learning activities over each three-year period. Professional associations or regulatory authorities should monitor compliance and establish mechanisms to respond to non-compliance, including disciplinary action.

## H. Recommendations of adherence to a code of professional ethics

25. ISAR recommends for use IFAC's "Code of ethics for professional accountants" (1998 revision). The document states that: "... the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest level of performance and generally to meet the public interest ... These objectives require four basic needs to be met: credibility; professionalism; quality of services; and confidence ... In order to achieve these objectives of the accountancy profession, professional accountants have to observe a number of ... fundamental principles. The fundamental principles are: integrity; objectivity; professional competence and due care; confidentiality; professional behaviour; and the relevant technical standards for carrying out the professional services".

26. Appropriate values and skills are very important to distinguish an individual as being a professional person. ISAR therefore recommends that all of the member States of UNCTAD take the steps necessary to ensure that national criteria for the granting and maintenance of a professional accountancy qualification conform to the guidance noted in the previous sections. ISAR believes that the demonstration of such conformity will enhance the development of the profession nationally and will, at the same time, further the continued increase in cross-border trade of accountancy services.

## Chapter II

## OPENING STATEMENTS

27. The **outgoing Chairperson of the Intergovernmental Working Group at its fifteenth session** said the attendance figures for that session spoke for themselves: the session had been attended by 148 experts from 62 countries, including developed and developing countries and countries with economies in transition. He was confident that the current session would confirm the importance of ISAR's work, as revealed by those figures, in seeking constant improvements in accounting and financial reporting on a global basis. He recalled that the main objectives of ISAR were to support international accounting standards and reporting practices of the highest quality, to try to close the gap in accounting knowledge and practice between countries, and to serve as a forum where all countries, regardless of their stage of development, could exchange ideas on accounting and reporting issues.

28. ISAR had made significant contributions to various forums and conferences and to moves towards a truly global accounting profession, and was the leading body in putting forward specific proposals in the areas of environmental accounting and eco-efficiency indicators. It was also making a major contribution to progress in the field of accounting and auditing practices for small and medium-sized enterprises.

29. However, recent crises had affected economic stability, employment and investment in different parts of the world, and, of course, investment went side by side with disclosure. The experts therefore had to consider the proper disclosure of related party transactions, off-balance-sheet items, foreign exchange rate risks, liquidity mismatches, segment information, contingent liabilities and loan-loss provisions. The need for disclosure of those items was not restricted to developing countries or to countries with economies in transition; it also applied to a number of developed countries. However, developing countries and those with economies in transition did have special needs, which they should be free to determine for themselves, working together with developed countries to ensure that their needs were met, rather than be subjected to unilateral action. Those needs must be debated in the appropriate forums, and none was more legitimate than ISAR.

30. He echoed the ideas of the Secretary-General of UNCTAD, in saying that the formulation of standards was a vital starting point but would be meaningless without compliance, and compliance could only be achieved if well-educated and well-trained professionals were on hand to monitor it.

31. Speaking as the representative of his country, Brazil, he stressed that his Government supported all initiatives aimed at achieving excellence in accounting, including ISAR. He announced that Brazil had officially offered to host the first meeting of the Board of the International Accounting Standards Committee (IASC) in the next millennium, which would be the first ever to be held in Latin America.

32. The **Director of the Division on Investment, Technology and Enterprise Development** said that the lessons from the Asian crisis on the relationship between financial transparency and financial market stability naturally raised the question of the role of the accountant in the proposed overhaul of the global financial architecture. The three main ideas for such an overhaul were the creation of a global lender of last resort, a global bankruptcy court and a global financial regulator. Although those ideas were probably not feasible politically, one way in which financial transparency could be increased was through the implementation of voluntary international standards for accounting and auditing. Accountants could make a useful contribution to that by suggesting ways to improve compliance with such standards. Suggestions might include country financial transparency reports (including the use of a compliance index), penalties for low compliance, a strengthened role for auditors, and the incorporation of a compliance requirement in the conditions imposed by international lenders.

33. There was a growing realization that business was not only about wealth creation but also about assuming social responsibilities for issues such as human rights and sustainable human development, and that globalization and trade liberalization had had some unforeseen negative effects, including financial instability. - UNCTAD X would have to examine how to spread the benefits of globalization more equitably. Many of the solutions to such global problems were within the domain of accountants' expertise. Accountants could contribute to improved financial disclosure rules, better corporate governance, a meaningful definition of corporate social responsibility, and security verification for electronic commerce.

34. The creation of a global benchmark for the national requirements for the qualifications for professional accountants could help to make globalization more equitable by setting down fair, transparent and objective ground rules for participation in the global economy. Compliance with global standards - which would be voluntary - could only be achieved if there were trained professionals to implement them. By indicating shortcomings in the implementation of any future global benchmark and helping countries to improve their accountability, accountants would also be helping to ensure that the technical cooperation provided by multilateral and bilateral donors was demand-driven, rather than supply-driven.

35. The initiative to create a benchmark was especially timely as the World Trade Organization (WTO) was in the process of adopting disciplines on domestic regulation in the accountancy sector. The guidelines on professional qualifications would complement the WTO disciplines by setting out precise technical standards in detail. If accepted, the guidelines would promote the harmonization of professional qualification requirements, close the gaps in national education systems and cut the cost of mutual recognition agreements. Although the multilateral approach sometimes appeared to be rather slow, it had proved to be more reliable in the long run than the bilateral approach.

36. The **Chief of the Enterprise Development Branch of the Division on Investment, Technology and Enterprise Development** reminded experts that they were not being called upon to discuss a global qualification or credential, since professional qualifications were usually given at the national level. Rather, the aim was to develop a comprehensive guideline which laid out the components

of a system of national requirements which would enable professional accountants to function in the global economy, promote the harmonization of professional qualification requirements and increase transborder trade in accountancy services.

37. She briefly outlined the history of the exercise so far. It had its origin at the Dakar Conference on Accountancy Development, held in Africa in 1991, where it was proposed to impart more value to African diplomas by reviewing selected curricula and offering technical assistance if they failed to meet international guidelines. At the eleventh session of ISAR, in 1993, it was considered that accounting education, particularly in developing countries, was not coping completely with changing circumstances, and that the profession needed to work towards reducing the gap between the developed and developing nations by providing a global benchmark for professional requirements. In subsequent consultations, experts from universities and professional organizations from developed countries, developing countries and countries with economies in transition had all participated in the work. Finally, she mentioned that other professional organizations, such as the International Forum of Actuaries Associations, had undertaken similar exercises to provide global guidelines on professional education, in order to protect their professional titles and the general public.

38. The **UNCTAD resource person** described the background to the work carried out on a global accounting curriculum, emphasizing the competence and eminence of those who had participated in the work. He introduced the "Guideline for a global accounting requirement and other qualification requirements" (TD/B/COM.2/ISAR/5) and the "Global curriculum for the professional education of professional accountants" (TD/B/COM.2/ISAR/6), stressing that while there was general agreement that a single curriculum for education for general knowledge was not feasible given the many cultural and other differences between different parts of the world, it was generally accepted that professional accountants should have a degree from an accredited university, or an equivalent level of knowledge. Regarding education for professional or technical knowledge, he explained how the proposed model curriculum had been developed on the basis of best practices from around the world.

## Chapter III

## CHAIRPERSON'S SUMMARY OF INFORMAL DISCUSSIONS

**Agenda item 3: Development of a global accounting curriculum and other qualification requirements**

39. For its consideration of this agenda item, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting had before it the following documentation:

"Guideline for a global accounting curriculum and other qualification requirements" (TD/B/COM.2/ISAR/5);

"Global curriculum for the professional education of professional accountants" (TD/B/COM.2/ISAR/6).

### A. Guideline for professional qualifications

40. The secretariat provided a brief background regarding the agenda item. At the Dakar conference in 1991, the Group had assessed the state of the accountancy profession in Africa, and concluded that a global benchmark for professional qualifications would make it possible to progressively narrow the gap between professional qualifications in developed and developing countries.

41. Work was begun in 1995 by a consultative group of experts from Africa, Asia, the Middle East and South America, as well as professional bodies (the Association of Chartered Certified Accountants (United Kingdom)(ACCA), the Arab Society of Certified Accountants (ASCA), General Certified Accountants (Canada) (GCA), the Institute of Chartered Accountants of Scotland (ICAS), and the International Federation of Accountants (IFAC)) and educators. The guideline describes the components of a system of qualification requirements, including:

(a) General knowledge and skills;

(a) Professional (technical) education;

(b) Professional examinations;

(c) Practical experience;

(d) Continuing professional education; and

(e) Code of ethics.

42. The secretariat noted that similar efforts were being undertaken by the International Forum of Actuaries Associations and the International Valuations Standards Committee. Both organizations were developing global guidelines for the education of their professionals and were considering accreditation systems. The secretariat explained that the guideline was not intended to confer a "global qualification" or a United Nations degree or certification in accountancy, since

these are usually given at the national level. Rather, the guideline was developed to promote global harmonization of professional qualification requirements. Such harmonization would close the gaps in national education systems, cut the cost of mutual recognition agreements and thereby increase the trade in accountancy services.

43. Most experts felt that the guideline and model curriculum were useful contributions to the development of accounting education across the world. Some described them as important contributions to trade and development and to mutual recognition, thus complementing the work done by the WTO, in facilitating mutual recognition agreements (MRAs). Certain experts recalled that ISAR guidelines, such as the recent position paper on accounting and financial reporting for environmental costs and liabilities, were frequently utilized by their organizations. They expressed the same expectations for the guideline. Experts who conduct assessment of qualifications as part of their job responsibilities in their organizations described the guideline as very important and said that they "cannot do with less".

44. One participant expressed concern that it might not be appropriate to refer to the guideline as "global" when the country with the largest capital market had not endorsed it. The counter arguments were that accounting and auditing standards developed by the International Accounting Standards Committee (IASC) and IFAC were not endorsed by all countries with large capital markets. Nevertheless, these standards are still referred to as "international standards" by the global business community; and though some countries did not directly participate in the consultations, their curricula were reviewed and knowledgeable experts from such countries participated during the consultations. Referring to the qualification system as "a benchmark" was also questioned by some experts. They argued that the contents of the model curriculum were not assigned weights and the level of attainment was not quantified, which made the benchmarking process very difficult. They suggested that a more appropriate term would be "guideline". Most experts accepted the suggestion, recognizing that weighting and levelling could be done later by a compliance body.

45. Some experts from developing countries felt that the establishment of a global benchmark for the accountancy profession through the United Nations system as opposed to other international bodies such as IFAC was important for developing countries, some of which could not afford the membership fee in organizations like IFAC, or the costs to send their experts to frequent meetings in London or New York. Since the United Nations is open to all countries, ISAR could also take a leading role in providing developing countries with access to training materials and to the profession itself.

46. Regarding the issue of compliance with the guideline, the chairperson of the consultative group stated that it would be discussed at a meeting organized by the ACCA in London in mid-July 1999.

### B. Definition of professional accountant

47. During the course of the discussions, one expert suggested that the Group include a definition for the "professional accountant" in the guideline. The Group agreed upon the following:

A "professional accountant" is a person who is qualified to be, or who is, a member of a recognized professional body of accountants or of auditors, or who is recognized as such by a regulatory body.

### C. Model curriculum for professional accountants

48. Some experts were of the opinion that the model curriculum could be particularly useful where there was inadequate capacity in the area of accountancy or in countries where there was a need for retraining accountants. Most experts stressed that the model curriculum was of relevance for all countries regardless of their level of economic development and as such was a good basis for addressing the issue of equity in the profession and responds to the demands of globalization with equity. Some experts suggested that the model curriculum would be more comprehensive if, in the future, it included topics such as government accounting or public sector accounting, accounting for public debt, programme or performance auditing. It was agreed later that these topics were better handled by other organizations or United Nations bodies that primarily deal with such issues. Some experts also recalled that these topics were beyond ISAR's mandate, since resolution 1982/67 of the Economic and Social Council specifies corporate accounting and reporting as the Group's domain. It was acknowledged, however, that a corporate accountant should have some basic awareness of public sector accounting as well as Islamic accounting rules.

49. Experts also asked if it would be possible to assign weights to the modules in the curriculum and whether a timetable or a schedule could also be a part of the model. Most experts agreed that the model curriculum was a point of reference or a "starting point" and educators and regulators could incorporate it into their curriculum national variations, assign weights to the modules and establish a schedule or timetable as they deemed necessary.

50. Most experts agreed that the model curriculum was a document that needed to be updated at appropriate intervals, as some contents may be rendered obsolete and it may become necessary to incorporate some new topics in response to technological and other changes. Some experts asked ISAR to undertake this duty. However, another expert expressed concern that such a responsibility was based on the assumption that ISAR would continue to exist indefinitely.

## Agenda item 4: Other business

### A. Self-assessment of the functioning of ISAR

51. In introducing this item, the secretariat explained that the Group had been requested by the Trade and Development Board to undertake a self-assessment of the functioning of ISAR in order to assist the consultations being conducted for the two intergovernmental expert groups, Competition Law and Policy and ISAR.

52. The secretariat suggested that the Group (a) examine its activities in relation to its mandate and (b) suggest how the functioning of the Group might be improved. The Group had before it a written summary of its mandate as contained in resolution 1982/67 of the Economic and Social Council:

(a) Make a positive contribution to standard-setting at the national and regional level;

(a) Take appropriate action to insure the comparability of disclosure by transnational corporations;

(c) Serve as an international body for the consideration of issues of accounting and reporting falling with the scope of the work of the Commission in order to improve the availability and comparability of information disclosed by transnational corporations;

(d) Review developments in the field of international accounting and reporting including the work of standard-setting bodies;

(e) Concentrate on establishing priorities (for work), taking into account the needs of home and host countries, particularly those of developing countries;

(f) Consult the international bodies which it deems appropriate on matters pertaining to the development of international standards of accounting and reporting, and elicit the views of interested parties; and

(g) Report to the Commission on Transnational Corporations (now the Commission on Investment, Technology and Related Financial Issues) on further steps to be taken in pursuit of the long-term objective of the *international harmonization* of accounting and reporting.

53. It also had a summary of its outputs and activities, including accounting issues, which it had taken up during the last three sessions as well as the publications and technical cooperation projects and workshops emanating from its work:

(a) Issues discussed:

(i) Disclosure by commercial banks;

(ii) Accounting for government concessions;

(iii) Transfer pricing;

(iv) Compliance with international accounting standards;

(v) Accounting and financial reporting for environmental costs and liabilities;

(vi) Model curriculum and requirements for professional qualifications;

(b) Publications:

(i) 1996 Review of International Accounting and Reporting Issues;

(ii) Responsibilities and Liabilities of Accountants and Auditors;

(iii) Financial disclosure by Banks: Proceedings of a Forum;

(c) Projects and workshops:

(i) Two country projects in accounting reform and retraining: Azerbaijan and Uzbekistan;

(ii) Three regional environmental workshops for 25 countries.

**B. ISAR as a broad-based, intergovernmental forum**

54. Many experts from developing and developed countries stated that ISAR was the only intergovernmental body dealing with harmonization; the only global forum where representatives of Governments and professional bodies met; and thus, the only opportunity for developing countries to have a voice in a field dominated by the private sector and by a few transnationals. It was also recognized that international accounting rules mainly serve the advanced economies and developed countries. The IASC was just beginning to consider how international rules could better reflect the situation of developing countries, so it was important to support the work of ISAR. Also the guidance formulated by private bodies was for large corporations whereas in developing countries small and medium-sized enterprises were the major actors.

55. Developing countries noted that the role of the public and private sectors in accounting differed across countries. In many developed countries the private sector plays a major role in formulating accounting standards. In developing countries Governments have a major role. A number of experts explained that in their countries accounting rules were legal instruments and it was the Government that initiated those instruments. ISAR served as a forum where government delegates could make their views known. ISAR should contribute to a better understanding of the Government's role. In other organizations, such as IFAC, which was a private body, State representatives, as far as they were aware, did not have the right to participate. Representation of public and private sector officials was broader in ISAR than in any other international organization.

**C. Focus and impact of ISAR's work**

56. Many experts described in detail how regulators, standard-setters and Governments benefited from the background papers, discussions, agreed conclusions and guidelines of ISAR. When ISAR reached consensus on accounting issues and published its guidance, these became landmarks and points of reference for developing countries when drawing up their standards. Among the many examples cited were the following:

(a) There is still nothing comparable to the publication *Accountancy Development in Africa*; it has helped countries in the region to assess the state of affairs in neighbouring countries;

(b) The work on accounting for government concessions in public services was useful, close to the concerns of developing countries and something they did not find elsewhere; the topic was important to

developing countries because concessions were used to attract foreign investors and Governments needed ways to monitor their performance;

(c) Guidance on financial disclosure by commercial banks had assisted a number of countries in drawing up their regulations; it served as a basis in central Africa to redraft and revamp the financial statements adopted by the Banking Commission for Central Africa;

(d) ISAR had contributed to areas where private sector bodies had not entered because of other priorities; environmental accounting was singled out as an area which was important for sustainable development in developing countries;

(e) Environmental accounting workshops have attracted many participants from 25 countries; the training materials are being incorporated by universities and professional bodies into their training programmes; banks, ministries of finance and stock exchanges were re-examining their requirements for environmental accounting after participating in the workshops;

(f) The relevance of ISAR has increased with the Asian crisis, which demonstrated the importance of transparency in accounting disclosure in the context of greater international financial security;

(g) The draft guideline on professional qualifications and model curriculum had given professional institutes access to an international curriculum rather than one based on another country's approach.

57. An expert from a regional grouping stated that while there was agreement on goals, there was a difference of views on how to achieve those goals within the group. It was acknowledged that there was a need for a fruitful, substantial and relevant exchange of views with other countries. The United Nations had the strength of convening a very large number and spectrum of nations. The United Nations group was the only global forum where government representatives met with other specialists in accounting and auditing. Most other groups had a more limited membership which in most cases made it difficult for developing and emerging countries to participate on an equal footing. A number of experts shared the view that it was logical that UNCTAD remain involved and that the United Nations group had a role to play in the future. The present focus should remain on information exchange and the development of position papers of voluntary guidance. Activities should be coordinated with the IASC, IFAC and the Organisation for Economic Co-operation and Development (OECD). In summary, he said, "We believe that we should build upon the experience collected over 16 years. Without a group like this we will suffer a loss of experience and simply take a step backwards."

58. Two other countries did not entirely share this view. One expert remarked that he had listened with great interest to all interventions and what was emerging was that there was universal agreement that the work which ISAR was supposed to undertake was important. His country could also agree with that viewpoint. Many developed countries were also totally in support of the idea

that the United Nations had a part to play in this field of accounting standards and reporting. But he asked, "How do we best achieve the objectives?" He had heard no reasons adduced by previous speakers as to why ISAR, as a body, should exist except the idea that it was the only intergovernmental body where developing countries could liaise and exchange views with developed countries. An expert from the same country said that much of the work performed by ISAR in recent years appeared to duplicate work performed elsewhere, including environmental accounting.

59. Another expert explained that the objective of the project on environmental accounting was to synthesize the work undertaken by others and to also fill in gaps. For example, while the new IASC standard on provisions and contingencies covered part of the subject, it did not cover the overall subject and it missed the capitalization of environmental costs. He pointed out that the project was the culmination of the work that was started by ISAR in the late 1980s and at that time it was definitely a pioneer in the subject. In fact it caused his national professional institute to undertake research on this topic. In conclusion, he thought that the environmental project was a good example of exactly the type of project that ISAR should be involved in and where it had added value. It was still one of those subjects that was being given secondary importance by standard-setting bodies at the moment rather than primary importance. He thought that this might change and that ISAR would be only too happy to see that change.

60. A second expert continued that in his opinion to discuss topics in different groups and among different experts was not duplication. IFAC was not an intergovernmental body and the members of IASC were not government standard-setters or regulators. When ISAR discussed similar things, it meant that standard-setters were examining questions of implementation and practice. He could understand, but not accept, the view of those developed countries which questioned ISAR's role because ISAR was helping developing countries and countries in transition to adopt the most advanced accounting practices and to learn from developed countries. He knew that some developed countries would not learn a lot from the sessions but the developing countries and economies in transition could and one way developed countries could help was to pass on their knowledge rather than giving support in monetary terms. The task in economies in transition was to help minds which were used to a structured and rigid system to adapt to a market-oriented system. The economies in transition had learned a lot from ISAR and also from other communities and professional bodies but they still needed the support of ISAR.

61. An expert read the following extract from a letter from the World Bank on the future of ISAR. "The world needs a joint public and private sector forum to develop mutual understanding of interdependencies to meet the challenges of the emerging international financial architecture. Only ISAR offers a balanced and inclusive forum where developing countries have a voice which is so often overlooked by Part I countries." The same expert also repeated a quote from his earlier remarks for the sake of avoiding misunderstanding about the cooperation between developed and developing countries: "Developing countries and economies in transition have needs in the field of accounting standards and of financial reporting. However, they should be given the opportunity to say what their needs are, and work side by side with developed countries to see that those needs are met, rather than merely being told how they can be met, from the unilateral point

of view of whomever decides to tell them. Those needs must be debated in the appropriate fora, and none is wider, more representative, and therefore more legitimate, than ISAR."

62. The chair then asked the vice-chair to read out another letter received from a country on self-assessment: "The work of ISAR in the last sessions, the fourteenth and fifteenth, makes it clear that the role of ISAR has been considerably reduced. ISAR has lost much of its relevance due to the low level of participation by standard-setting bodies of developed countries. At the same time the aspect of development remains very limited in the academic debate on subjects, which is sometimes very far from the initial concerns of the developing countries. In conclusion ISAR in our view has not been successful in finding a new breath of air as recommended at the Midrand Conference. We do not think it is desirable for it to continue its work as it currently stands."

### D. Future impacts

63. Several experts stated that ISAR could be the bridge or link between those organizations formulating international standards and developing countries.

64. One expert put the impact of ISAR within the context of the inseparability of peace and prosperity. While accounting was an effective management tool, it was first and foremost a factor for the acceleration of economic development. To a great extent the success of other development activities depended on it. He asked that resources be made available to ISAR not only to strengthen its day-to-day functioning but also so that its action could be extended to the countries which really needed it. He asked if he had to recall for everyone that it was not possible to ensure sustainable economic growth unless there was a solid accounting infrastructure and a qualified, experienced accounting profession. Most of the international institutions were devoted to the macro aspects of finance and only UNCTAD looked at the micro aspects or financial issues at the enterprise level.

### E. Suggestions to improve the functioning of ISAR

65. A number of experts raised concerns about the shortening of the duration of the sessions from two weeks to seven days to five days to three days. Given the costs involved, it was not easy for developing countries to justify their attendance if the session was only for two or three days. Other experts from developing countries felt that by reducing the agenda to one accounting issue, the guidance and impact of the Group had been limited. It also had made it impossible for the Group to fulfil one aspect of its mandate - to review developments in the field, including the work of standard-setting bodies.

66. During the many interventions a number of constructive suggestions were made for the improved functioning of ISAR:

(a) Lengthen the duration of the sessions; increase the number of agenda items;

(b) Plan agendas several years in advance;

(c) The Trade and Development Board should indicate what accounting subjects would have greater benefit for developing countries in the context of UNCTAD's work;

(d) Increase communication between the secretariat and elected experts;

(e) Improve transparency in the appointment of experts to committees and those experts should keep the elected experts informed;

(f) Ensure that every elected member State has a national board of accounting standards;

(g) Conduct more regional workshops in Africa to follow up what has been done by ISAR;

(h) Process publications more rapidly in order to disseminate agreed conclusions and guidelines in a timely fashion.

## F. Role of accounting disclosure in the East Asian financial crisis

67. Experts also reviewed the study "The role of accounting disclosure in the East Asian financial crisis: lessons learned?". The study was conducted upon the request of the Group at its fifteenth session. The study, prepared by an independent consultant, reviewed the actual accounting practices of 90 of the largest banks and corporations in six Asian countries.

68. The study found that while weak financial infrastructure, financial liberalization and speculation were to blame for the crisis, if reliable accounting information had been available, excessive financial exposure would have been detected earlier, permitting corrective action to be taken, and thus possibly diminishing the magnitude of the crisis. The secretariat underlined the fact that national accounting practices were compared with international standards since the objective of the study was to identify room for improvement. She stressed that probably many of the surveyed entities were in compliance with national rules.

69. Many experts concurred with the conclusions of the study. Some presented additional facts that supported the conclusions by sharing their expert knowledge of some of the countries in the region and comparing the practices of those that experienced the financial crisis with those that did not. For instance, some experts suggested that countries whose central banks control not only public sector foreign currency borrowing but also private sector foreign currency borrowing were in a better position to withstand the crisis. Some experts commented that some lenders might have been lured by large returns and knowingly avoided risk assessment procedures in extending loans to those enterprises which were impacted by the crisis. Experts also commented that certain auditors may have compromised their professionalism and ethics and issued unqualified audit opinions in order to maintain their share in the shrinking market of auditing services, which is evidenced by recent mergers of the leading international accounting firms.

70. Some experts pointed out that, in some countries in the study, accounting and reporting practices for foreign exchange gains and losses may have differed from international accounting standards. This was due to the fact that some Governments made shifts in monetary policy that resulted in extraordinary losses or gains. These Governments allowed enterprises to deviate from International Accounting Standards (IAS) practices of recognizing such gains and losses in the accounting period during which the gains or losses occurred and instead recognize them by allocating them to a number of accounting periods. Some experts informed the Group of measures that some countries in the study have recently taken to revamp their accounting and reporting practices, such as segment reporting and additional disclosure of financial instruments.

71. One expert from an Asian country found the research methodology and findings of the study very useful and his ministry had translated it into their language in order to be able to conduct similar studies on enterprises in their country. Another expert felt that the study had technical flaws and promised to send comments. It was also suggested that certain quotations from financial experts in the West be removed from the text and that it remain under the main responsibility of the author.

### G. Recent developments in other international organizations

72. This agenda item was concluded by 10-minute presentations by the representatives of the IASC and the OECD. The representative of the IASC described the new proposed structure for the IASC. The main objective for the proposed changes was to work more closely with national standard-setters and accommodate the wider interest in the IASC. The new structure would consist of an enlarged board of 25 member organizations as compared to the present 13 members. A standing standards development committee of 11 individuals would replace the various ad hoc steering committees on different topics. This committee would be supported by a standards development advisory committee which would act as a channel of communication with those national standard-setters who would not be able to participate directly in the work of the standards development committee because of its limited size.

73. The representative of OECD gave the rationale behind the current guideline on corporate governance. One key element in improving economic efficiency is corporate governance, which involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions. Adherence to good corporate governance practices will help reinforce the confidence of investors, may reduce the cost of capital and ultimately induce more stable capital flows. The guideline includes principles on the rights of shareholders, their equitable treatment, the role of stakeholders in corporate governance, disclosure and transparency and the role of the board.

74. The representative of the European Commission also informed the experts about recent developments in the Commission. The European Union has adopted a new approach to accounting harmonization. The key element of this strategy is

to allow European global players to prepare their consolidated financial statements on the basis of international accounting standards. During 1998, six member States have adopted measures or legislation which make it possible for certain companies to prepare their consolidated financial statements in accordance with international accounting standards. The Commission will present later this year a proposal to amend the Fourth Directive on annual accounts so as to allow member States to permit value accounting for certain financial assets and liabilities. The Commission has also issued a proposal which contains a 25 per cent increase in the thresholds for the definition of small and medium-sized companies. This definition, which is based upon net turnover, balance sheet total and average number of employees, is important because it allows small and medium-sized enterprises which come under the definition to benefit from certain exemptions, which concern primarily the extent of the disclosure and the audit requirement. This year the Commission will publish a recommendation on environmental issues in financial reporting. This recommendation will take account of the earlier work carried out by the accounting advisory forum and by committees such as ISAR. Lastly, the Commission has established a committee on auditing, which is reviewing the existing international standards on auditing and their application in the context of the European Union, examining the audit quality monitoring systems in member States and a set of core principles on independence. The European Union has also been involved in a large number of technical assistance projects relating to accounting and auditing in countries in transition.

## Chapter IV

## CLOSING STATEMENTS

75. The representative of the **United States of America** said that the United States Government did not endorse the informal paper on accounting disclosure in the East-Asian financial crisis because it had a number of technical flaws. She further noted that the use of statements by United States government officials did not constitute any endorsement of the document.

76. The representative of **Japan**, referring to the same informal paper, said it could not be taken to represent the views of the UNCTAD secretariat, ISAR or participants in the session, but merely reflected the personal views of the author.

77. The representative of **Tunisia** said he fully agreed with the reasoning in the letter from the official of the World Bank that had been cited in the informal meetings. At the same time, he was in favour of some form of yearly evaluation of the work of ISAR to make it more effective. He also thought that ISAR, to be more useful, could pay more attention to "marketing" itself.

## Chapter V

## ORGANIZATIONAL MATTERS

### A. Opening of the session

78. The session was opened on Wednesday, 17 February 1999, by Mr. Nelson Carvalho (Brazil), Chairperson of the Intergovernmental Working Group of Experts at its fifteenth session.

### B. Election of officers

(Agenda item 1)

79. At its opening plenary meeting, on Wednesday, 17 February 1999, the Intergovernmental Working Group elected its officers, as follows:

| | |
|---|---|
| Chairperson: | Ms. Alicja Jaruga (Poland) |
| Vice-Chairperson-cum-Rapporteur: | Mr. Domenico da Empoli (Italy) |

### C. Adoption of the agenda and organization of work

(Agenda item 2)

80. Also at its opening plenary meeting, the Intergovernmental Working Group adopted the provisional agenda for the session (contained in TD/B/COM.2/ISAR/4). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Development of a global accounting curriculum and other qualification requirements
4. Other business
5. Provisional agenda for the seventeenth session
6. Adoption of the report of the Intergovernmental Working Group on its sixteenth session

## D. Development of a global accounting curriculum and other qualification requirements

(Agenda item 3)

81. At its closing plenary meeting, on 19 February 1999, the Intergovernmental Working Group adopted its agreed conclusions and recommendations on this topic (see chapter I). It also agreed that the Chairperson should summarize the informal discussions on this agenda item (see chapter III).

## E. Other matters

(Agenda item 4)

82. At its closing plenary meeting, the Intergovernmental Working Group agreed that the Chairperson should also summarize the informal discussions on matters raised under this agenda item (see chapter III).

## F. Provisional agenda for the seventeenth session

(Agenda item 5)

83. At its closing plenary meeting, the Intergovernmental Working Group agreed to transmit the provisional agenda for its seventeenth session (contained in annex I) to the Commission on Investment, Technology and Related Issues.

## G. Adoption of the report of the Intergovernmental Working Group on its sixteenth session

(Agenda item 6)

84. Also at its closing plenary meeting, the Intergovernmental Working Group adopted its draft report (TD/B/COM.2/ISAR/L.1), and authorized the Vice-Chairperson-cum-Rapporteur to finalize the report in the light of the proceedings of the closing plenary meeting.

**Annex I**

**PROVISIONAL AGENDA FOR THE SEVENTEENTH SESSION**

1. Election of officers

2. Adoption of the agenda and organization of work

3. Accounting for small and medium-sized enterprises

4. Other business

5. Provisional agenda for the next session

6. Adoption of the report

## Annex II

## ATTENDANCE [1]

1. Experts from the following States members of UNCTAD attended the session:

Belarus
Belgium
Benin
Brazil
Cameroon
Canada
Chile
China
Costa Rica
Cuba
Cyprus
Czech Republic
Ecuador
Egypt
Ethiopia
France
Gabon
Germany
Hungary
India
Iran (Islamic Republic of)
Ireland
Italy
Japan
Jordan
Kazakhstan
Kenya
Latvia
Lebanon
Lithuania
Madagascar
Malaysia
Mauritius
Mexico
Morocco
Nepal
Nigeria
Pakistan
Panama
Peru
Philippines
Poland
Portugal
Romania
Russian Federation
Rwanda
Senegal
South Africa
Spain
Sri Lanka
Sudan
Switzerland
Thailand
Tunisia
Uganda
Ukraine
United Kingdom of Great Britain and Northern Ireland
United States of America

2. The following intergovernmental organizations were represented at the session:

European Community
Organisation for Economic Co-operation and Development
Organization of African Unity

3. The following international organization was represented at the session:

World Trade Organization

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[1] For the list of participants, see TD/B/COM.2/ISAR/INF.2.

3. The United Nations Environment Programme was represented at the session.

4. The following non-governmental organizations were represented at the session:

General Category

International Chamber of Commerce
World Savings Bank Institute

5. The following organizations, specially invited by the secretariat, attended the session:

Accounting and Auditing Organization for Islamic Financial Institution
Arab Society of Certified Accountants
Canadian Institute of Chartered Accountants
Certified General Accountants of Canada
Chamber of Auditors of Kazakhstan
Chartered Association of Certified Accountants
Institute of Chartered Accountants of Scotland
International Accounting Standards Committee
International Federation of Accountants
International Federation of French-Speaking Accountants
Malaysian Institute of Accountants
Russian Board of Auditors

Guests

Ms. Caroline AGGESTAM, Assistant Professor, Copenhagen Business School
Mr. Daniel KAPSSU, Expert Comptable, ancien président de l'ordre des Experts comptables du Cameroun (ONECCA)
Mr. Ravi KATHPALIA, resource person
Ms. Ann LOFT, Professor, Copenhagen Business School
Mr. Kaspar MULLER, Partner, Ellipson Management AG
Ms. Corrine OLLIER, University of Geneva
Mr. Ramon J. de REYNA, resource person
Ms. Bettina ROG, University of Geneva
Mr. Zhanat SYZDYKOV, Professor of Accounting, KIMEP University, Kazakhstan
Mr. Sopko VASYL, Professor, National University of Economics, Kiev, Ukraine
Mr. Peter WALTON, Professor, HEC University of Geneva
Ms. Aline WEGO TEKU, University of Geneva

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